CRA commentary

Overall Commentary:

Revisions seem out of touch with low- income areas needing to be served. There is too much concentration on profitability, not enough concentration on actual need within the community. Alternatives should not count at all. Alternatives are supplements to branch banking, not substitutes. Alternative access in low to moderate income areas are not solving the need for branches. These alternatives cannot be an overall substitute for branches. Population density within the low-income community is majority, even though the profitability may be lacking. Concerns about taking money without service. Need to strengthen their branch presents in minority and low income communities. Start with reduction in high income areas before taking away from low-income. The high income has more access and availability to transportation, which make the alternatives more effective in said areas. Security and educational concerns, which these alternative systems do not address and if anything, make it worse. There should be continued monitoring, once alternative in place.

A Few Concerns/Questions:

1. **How will you educate people in these transitional areas?**
2. **Will there be a personal presence in these communities at all, once the infrastructure needed for the alternative is in place?**
3. **What will be the creditability of information to base for the basis of these decisions? - Need community voice.**

Burden of Proof Concerns:
The assumption should be against the agencies, to which they must refute the assumption through documented evidence.

I. Access to Banking Services

- Examiners evaluate an institution's current distribution of branches and its record of opening and closing branches, particularly branches located in low- or moderate-income geographics or primarily serving low- or moderate-income individuals. However, an institution is not required to expand its branch network or operate unprofitable branches.

Comments: What if it is the sole means of access for poverty stricken areas?

Questions/ Answers

1. Does the proposed revised guidance strike the appropriate balance between consideration of traditional delivery systems (e.g., branches) and alternative systems for serving low- and moderate-income geographies and individuals?

Comments: This depends on the true basis for branch closures.

B. Alternative Systems for Delivering Retail Banking Services

- To determine whether a financial institution's alternative delivery system is an available and effective means of delivering retail banking services in low- or moderate-income geographies and to low- or moderate-income individuals, examiners may consider a variety of factors, including:

(1) the ease of access, whether physical or virtual;
(2) the cost to consumers, as compared with other delivery systems;
(3) the range of services delivered;
(4) the ease of use;
(5) the rate of adoption; and

(6) the reliability of the system.

Comments: How many of these factors are needed to show effectiveness? The factors are present, but what factors will be weighted and how much weight is to be given? Will this be compared to need that exists? Some should have more weight than others. Concentrate more on <u>actual need and public safety</u>. Agencies need to look at the record of lending. Should have to address and show weight for each factor. Consumer and consumer advocate commentary is necessary. There should be a waiting period, before a branch is closed to give opportunity for commentary from community.

- Examiners will consider any information an institution maintains and provides demonstrating that the institution's alternative delivery systems are available to, and used by, low- or moderate-income individuals, such as data on customer usage or transactions.

Comments: Concerns dealing with creditability of information? What about information provided by consumers and organizations serving the community?

Questions/Answers
2. Are the factors listed for consideration when examiners evaluate the availability and effectiveness of alternative delivery systems sufficiently flexible to be used by examiners as the financial services marketplace evolves? Are there other factors that should be included?
3. What types of information are financial institutions likely to routinely maintain that may be used to demonstrate that an institution's alternative delivery systems are available to, and used by, low- and moderate-income individuals?
4. What other sources of data and quantitative information could examiners use to evaluate the ease of access; cost to consumers, as compared with other delivery systems; range of services delivered; ease of use; rate of adoption; and reliability of alternative delivery systems? Do financial institutions have such data readily available for examiners to review?

Comments: What about the information that consumers and community organizations have? The burden should not be on them, but they should have the opportunity to supplement and/or challenge/refute the information that the financial institutions provide.

5. When considering cost to consumers, as compared with other delivery systems, and the range of services delivered, should examiners evaluate these features relative to other delivery systems (1) offered by the institution, (2) offered by institutions within the institution's assessment area(s), or (3) offered by the banking industry generally?
6. Do the proposed revisions adequately address changes in the way financial institutions deliver products in the context of assessment area(s) based on the location of a financial institution's branches and deposit-taking ATMs?

II. Innovative or Flexible Lending Practices

- The Agencies believe that, **<u>when implemented correctly</u>**, innovative or flexible practices can help meet the credit needs of low- or moderate-income geographies or individuals.
- The first example describes small dollar loan programs as an innovative practice when such loans are made in a safe and sound manner with reasonable terms, and are offered in conjunction with outreach initiatives that include financial literacy or a savings component.
- The Agencies are including small dollar loan programs as an example of an innovative or flexible lending practice to encourage such programs as alternatives to higher-cost credit products that many low- or moderate-income individuals currently may depend upon to meet their small dollar credit needs.

Comments: Interest rate concerns, denial through backend rates?

- The Agencies believe that ensuring proper consideration for such initiatives as innovative or flexible lending practices is consistent with the goals of the regulations because they facilitate institutions' abilities to meet the credit needs of their communities.

- Mortgage or consumer lending programs that utilize alternative credit histories in a manner that would benefit low- or moderate-income individuals.

- The Agencies understand that low- or moderate-income individuals with limited conventional credit histories face challenges in obtaining access to credit.

**For individuals who do not qualify for credit based on the use of conventional credit reports, but who have a positive payment history with regard to obligations such as a rental agreement or utility account, such additiona information may supplement an assessment of a borrower's risk profile, consistent with safe and sound underwriting practices.

- In evaluating the innovativeness or flexibility of an institution's lending practices, examiners will **not be limited** to reviewing the overall variety and specific terms and conditions of the credit products themselves.

- Examiners also consider whether, and the extent to which, innovative or flexible terms or products augment the success and effectiveness of the institution's community development loan programs or its loan programs that address the credit needs of low- or moderate-income geographies or individuals. Although examiners evaluate how innovative or flexible lending practices address the credit needs of low- or moderate-income geographies or individuals, an innovative or flexible lending practice is not required in order to obtain a specific rating.

Comments: How much priority is given to innovativeness and flexibility?

***Examples of innovative or flexible lending practices include:**

- **In connection with a community development loan program**, an institution may establish a technical assistance program under which the institution, directly or through third parties, to provide affordable housing developers and other loan recipients with financial consulting services.

- In connection with a small business lending program in a low- or moderate-income area and consistent with safe and sound lending practices, an institution may implement a program under which, the institution also contracts with the **small business borrowers.**

Comments: Such a contracting arrangement would not, itself, qualify for CRA consideration.

However, it may be favorably considered as an innovative or flexible practice that augments the loan program's success and effectiveness, and improves the program's ability to serve community development purposes by helping to promote economic development through support of small business activities and revitalization or stabilization of low- or moderate-income geographies.

- An institution's efforts to encourage the availability, awareness, and use of the small dollar loan program to meet the credit needs of low- and moderate-income individuals, should augment the success and effectiveness of the lending program.

Comments: no "concrete" benefits to lender.

***** ie: An initiative to partner with a nonprofit organization to provide financial counseling that encourages responsible use of credit may, by itself, constitute a community development service eligible for consideration under the service test.

Comments: What good is responsible use of credit if no credit is accessible? - This should go beyond to assess availability of credit to these consumers.

- An institution **may** establish underwriting standards that utilize alternative credit histories, which would benefit low- and moderate- income individuals who lack sufficient conventional credit histories to be evaluated under the bank's underwriting standards.

Comments: may*should be***must*****

Questions/Answers
7. Is the proposed revised guidance sufficient to encourage institutions to design more innovative or flexible lending programs that are responsive to community needs?

Comments: No. There is not a concrete benefit for doing it and no accountability for not doing it – neither carrot, nor stick.

8. Are the new examples described in the proposed revised guidance useful? Do the benefits of using alternative credit histories in underwriting standards that benefit low- or moderate- income persons outweigh any concerns raised by the use of alternative credit histories of which the Agencies should be aware?

Comments: Look at the actual default, delinquency and buyback data.

9. Is there additional guidance that the Agencies should provide to better enable examiners and institutions to identify those circumstances in which the use of alternative credit histories will benefit low- or moderate-income individuals?

Comments: Use of Vantage score; differentiate between predatory lending and higher-cost loans that make credit available that would not otherwise be available. Also, set forth clear guidance as to safe harbors allowing for both profitability and the extension of credit to otherwise unserved communities and borrowers.

III. Community Development

If banking service in assessment area is profitable, the view should be on the related community needs.

Comments: Profitability should not be primary concern, more emphasis on assessment area. Branch credits usually change the point allocation through community grants.

Questions/Answers
10. Does the proposed revised guidance clarify what economic development activities are considered under CRA? It gives
11. What information should examiners use to demonstrate that an activity meets the size and purpose tests described in the proposed revised guidance?

12. Does the proposed revised guidance help to clarify what is meant by job creation for low- or -moderate-income individuals?
13. Are the proposed examples demonstrating that an activity promotes economic development for CRA purposes appropriate? Are there other examples the Agencies should include that would demonstrate that an activity promotes economic development for CRA purposes?
14. What information should examiners review when determining the performance context of an institution seeking CRA consideration for its economic development activities?
15. What information is available that could be used to evaluate the local business environment and economic development needs in a low- or moderate-income geography or among low- or moderate-income individuals within the institution's assessment area(s)?
16. Are there particular measurements of impact that examiners should consider when evaluating the quality of jobs created, retained, or improved?

A. Economic Development
B. Community Development Loans

17. Should loans for renewable energy or energy-efficient equipment or projects that support the development, rehabilitation, improvement, or maintenance of community facilities that serve low- or moderate-income individuals be considered under the CRA regulations?
18. Do the proposed revisions make clear which energy-efficiency activities would be considered under the CRA regulations?

C. Revitalize or Stabilize Under-served Non-metropolitan Middle-Income Geographies
19. Should communications infrastructure, such as broadband Internet service, that serves an institution's community, including low- and moderate-income residents, be considered an activity that revitalizes or stabilizes a community? Should CRA consideration be given to such activities?

Comments: Yes, because it is essential to the new way of doing business. Also, it is necessary for most of the alternatives to be effective.

20. Does the proposed revised guidance sufficiently clarify which activities related to communications infrastructure would be considered under the CRA?

I. Community Development Services
A. Evaluating Retail Banking and Community Development Services
21. Does the proposed new guidance sufficiently clarify how examiners evaluate retail and community development services under the large institution service test? If not, why not? How could the answer be made clearer?
22. What types of information are financial institutions likely to maintain that may be used to demonstrate that an institution's community development services are responsive to the needs of low- and moderate-income individuals or in low- and moderate-income geographies?

Comments: Comparison to the pool of qualified applicants within the community the branch is representing.

B. Quantitative and Qualitative Measures of Community Development Service
23. Does the proposed new guidance sufficiently explain the importance of the qualitative factors related to community development services?

24. What types of information are financial institutions and relevant third parties likely to maintain that may be used to demonstrate the extent to which community development services are offered and used?

Comments: Advertising and dissemination materials within the community, and the receptiveness of these developmental services.

II. Responsiveness and Innovativeness
A. Responsiveness

25. Does this proposed new guidance appropriately highlight the importance of responsiveness to credit and community development needs and provide a flexible, yet clear, standard for determining how financial institutions will receive consideration?
26. Are there other sources of information that examiners should consider when evaluating an institution's responsiveness to credit and community development needs?

Comments: Yes, but continues monitoring of the situation and growth within the low-income communities is desperately needed.

27. In connection with community development activities that will not directly benefit a financial institution's assessment area(s), as described in the 2013 Guidance, would the proposed new Q&A help a financial institution in making decisions about the community development activities in which to participate? Addresses two categories of community development activities that will not directly benefit a financial institution's assessment area(s):
(1) Those that have a purpose, mandate, or function to serve the assessment area(s); and
(2) Those that do not directly benefit the assessment area(s) but that do benefit geographies or individuals in the broader statewide or regional area that includes the institution's assessment area(s).

B. Innovativeness
28. Does the proposed new guidance clarify what is meant by innovativeness?
29. Does the proposed new guidance appropriately explain innovations that may occur at financial institutions of different sizes and types?
30. Is it clear that innovative activities are not required?

Comments: Yes, it is clear that innovative activities are not required, but again it must be remembered that even innovative activities cannot provide substitutes for traditional branch banking in low to moderate income communities.